

GUNS VS BUTTER: SECURITY AND PUBLIC FINANCE

CONTRIBUTOR: MARINA CAPARINI (SIPRI)

OVERVIEW

The issue of how much money and what resources a country should spend on the military and security sector compared to how much money it should spend on the civilian sphere in areas such as health care or education is summed up in the classic trade-off known in economics as ‘guns v. butter’. Increasingly, research is challenging the belief that investing in security and financing development are mutually exclusive, and these are now being seen as mutually dependent. Moreover, the public financial management of security institutions has been found to be an essential, albeit often neglected, dimension of security sector reform (SSR). This is partly because of the compartmentalization of international assistance. International financial institutions have for many years resisted providing technical assistance to the security sector. The security–development nexus therefore lies at the heart of resource allocation both to government institutions and within security and justice institutions such as the military, the police and the courts.

This session examined the state of the art in fiscal governance of security and justice institutions, using the recently published World Bank publication, *Security Development: Public Finance and the Security Sector*, as the basis for discussion and to identify specific examples of successful reforms and enabling environments. Key questions concerned: the impact of security spending on macroeconomic and fiscal sustainability; resource allocation across the public sector and within the security sector; public financial management, including payroll and procurement; accountability, oversight and performance; and donor assistance.

KEY TAKEAWAYS

It is important to consider the role of institutions—and institutional silos—in political economy. For example, finance ministry officials often have difficulty understanding the culture of security institutions, and the processes and rationales by which decisions are made. Similarly, defence ministries and security institutions are often not in a position to plan against a specific budget envelope or take account of constraints other than security. Financing is ultimately an expression of civilian control, and government accounting offices and internal auditing bodies can increase public accountability where the capacity exists to perform these functions effectively.

It is also important to understand the politics and the political process. While an analysis of the resources available in a sector is a technical process that can provide a neutral evidence base for discussion among political actors, political factors re-emerge as policymakers take budgetary decisions, and political and security actors have to implement those decisions. Modelling the financial and other consequences of internal security reform, such as for access and legitimacy, is a way to try to understand the influence of political factors. A lack of transparency in budgeting and spending in the security sector makes it difficult to understand the reasons behind increased spending on security. Cases from Thailand and Indonesia were discussed to illustrate how a lack of structural transparency with regard to military budgets enables commanders to spend budgeted funds as they see fit with little accountability. On the other hand, some aid-recipient countries such as Somalia are quite transparent, providing detailed breakdowns of spending categories. Conditionality needs to be used carefully but could potentially be used to increase transparency.



Various potential entry points exist. Middle-income Latin American countries experiencing violence and conflict-affected countries in Africa are looking to cost their SSR processes, and in post-conflict countries the transition from international peace operations to national security systems. Development occurs more slowly than SSR. Even though it is faster to ramp up security, however, there is a need to ensure that both security and development needs are addressed.

The objectives of specific SSR must be well defined. Decisions on the funding of security and development raise sensitive issues regarding who it is that defines the security threats facing a country, as well as how much funding should be allocated and where. Donors have their own objectives and spending preferences, which might differ from those of the local population. Donors must find a balance between assistance and imposing their preferences if the principle of local ownership is to be upheld.

The full professionalization of the security sector—the armed forces, police and the courts—necessarily entails a public finance perspective, as well as related issues such as payroll, human resources policy, rank pyramids and performance. The Public Expenditure Review in Liberia, which was completed in 2012, resulted in regular dialogue between internal security officials and finance officials, and created greater exchange at the national policymaking level.

RECOMMENDATIONS

1. Build frameworks for public accountability and transparency when it comes to spending on the security sector. Be creative with oversight; allow for qualitative aspects as well as quantitative.
2. The cost of arms and the size of other areas of spending in the security sector should be transparent.
3. Establish clear indicators and definitions of security. Focus on measuring the outcomes of security institutions, not just the outputs or the amount of funding invested.
4. Focus on objectives and who defines them, as well as how success is defined, be it financial effectiveness, effectiveness in the eyes of the public, legitimacy and so on.
5. Specifically include women and women's perceptions of security and development.